How to Design and Deliver An Effective Outsourcing Program: Creating New Businesses and Jobs for Residents

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This publication was developed by HUD to help plan and develop Neighborhood Networks centers.

The guides in this series offer "how to" information such as starting a center, creating programs, and identifying center partners; marketing and media outreach; sustainability; and funding.

Neighborhood Networks is a community-based program established by HUD in 1995. Since then, more than 1,000 centers have opened throughout the United States, Puerto Rico, and the U.S. Virgin Islands. These community learning centers provide residents of HUD insured and assisted properties with programs, activities and training promoting economic self-sufficiency.

This guide was published in 2002.

To receive copies of this publication or any others in the series, contact:

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All publications are available from the Neighborhood Networks Web site at www.NeighborhoodNetworks.org

How to Design and Deliver An Effective Outsourcing Program: Creating New Businesses and Jobs for Residents

Introduction

Neighborhood Networks centers across the country are starting their own small businesses or seeing the potential in starting a center-based business. These initiatives, or microenterprises, can be an important source of income for centers because they can generate monies to fund center operations.

A Neighborhood Networks center-run business can be valuable to residents who participate in the venture because it gives residents the chance to take part in a business initiative and master valuable workplace skills.

Centers looking for a business opportunity may want to consider "outsourcing."

Outsourcing is the standard practice among large employers and institutions for subcontracting work to businesses located off site. It has been a traditional business practice since the early 1970s when businesses and corporations saw outsourcing as a way to cut costs.

Outsourced services include writing software programs, performing building maintenance, administering payroll, and entering data. Many outsourced services can be done by small entrepreneurs because these tasks require little capital investment, have low fixed costs, and require only basic job skills.

Neighborhood Networks centers provide a potential pool of employees. By understanding how the outsourcing business works, centers can link eligible residents to jobs by matching them with the vendors or businesses that require a labor force.

This guide shows Neighborhood Networks centers how to identify, approach, and work with companies and institutions to create new businesses and jobs for economically disadvantaged communities.

Other guides in the Neighborhood Networks employment series include:

- How to Design and Deliver an Effective Employment Program
- How to Design and Deliver an Effective Job Retention Program
- How to Design and Deliver an Effective Job Development and Placement Program
- How to Design and Deliver Career Growth and Advancement Assistance

How Centers Can Use This Guide

Neighborhood Networks centers can use this guide in one of two ways. The choice depends on staff and center resources and their capacity to deliver services.

This guide describes two strategies for outsourcing services.

It is recommended that new centers approach outsourcing modestly. Centers should follow the suggestions described in strategy 1 (see page 2).

Larger, more experienced centers should follow the recommended five steps listed under strategy 2 (see page 3).

Strategy 1—The Modest Approach to Outsourcing: Contract or Partner With Local Business Intermediaries and Service Providers

In this approach to outsourcing, centers can link with experienced business intermediaries or consultants and local employers and institutions that subcontract work. Depending on the size of the center's staff, it can also partner with a nonprofit training and placement provider to deliver job-ready workers to the vendors or business that perform the outsourced work.

If residents are being considered as workers, then centers should survey skills and vocational interests to determine desire and aptitude.

Partner With a Local Business Intermediary

Business intermediaries are third-party entities who may act as brokers, agents, or mediators in negotiating a contract for goods or services between two or more parties who want to enter into an agreement to buy or sell something of value. Intermediaries can be for-profit or nonprofit entities. They know which local employers and institutions are outsourcing work and the procedures for initiating and negotiating a contract for services.

Centers can find a qualified intermediary through local business organizations or social service agencies, such as the local branch of the Urban League, the local minority business council, the chamber of commerce, or the regional chapter of the National Alliance of Business.

The company performing the tasks can be the Neighborhood Networks center that provides the workers from among its residents.

Intermediaries can provide essential assistance to starting an outsourcing initiative, including:

 Identifying local employers or institutions that outsource. The intermediary will know employers that routinely do external purchasing or outsourcing and that have an existing relationship with local or minority vendors.

- Identifying potential markets for employers. Large companies have purchasing departments that are often unaware of local vendors with specific skills to deliver the service or products needed.
- Identifying minority vendors or entrepreneurs. The intermediary may be able to recommend minority vendors and entrepreneurs that can do outsourced work. The intermediary can also screen and prequalify minority vendors or entrepreneurs for capacity and professionalism.
- Facilitating discussions between the employer and vendors. The intermediary can help develop and establish new outsourcing initiatives. The intermediary should help identify a senior executive at a large employer or institution who will champion the project and ensure a 100-percent commitment of all staff involved.
- Assisting minority vendors in business planning. The intermediary can help minority vendors and entrepreneurs prepare a business plan for securing outsourced work and help secure financing to buy supplies or labor so that the work can be performed. An intermediary can also help identify various funding sources for businesses located within urban enterprise or empowerment zones. Funding sources include federal or state agencies, such as the U.S. Small Business Administration, the U.S. Department of Commerce's Minority Business Development Agency (MBDA), the U.S. Department of Labor, and the state Department of Economic Development, that are responsible for assisting minority businesses,. Other funding sources include national nonprofit foundations and corporate giving programs.

These are examples of intermediaries assisting small and minority vendors in becoming successful urban outsourcing initiatives:

Council for Economic and Business
 Opportunity (CEBO) worked with the
 University of Maryland Medical System
 (UMMS) and Johns Hopkins University

Health System to establish significant outsourcing programs with minority vendors. CEBO helped form a local company that employed 60 people. It began as a healthcare products distributor with \$6 to \$8 million in contracts from UMMS and Johns Hopkins and eventually became a logistics, warehousing, and transportation business for healthcare and other products purchased by both medical facilities.

For more information, contact: Larry Smith Council for Economic and Business Opportunity 800 North Charles Street, Suite 300 Baltimore, MD 21201 (410) 576–2326

Brody-Weiser-Burns, New Haven, Connecticut: Brody-Weiser-Burns, a consulting firm specializing in working with nonprofit organizations at the national and community level, worked with the Women's Self-Employment Project (WSEP), a pioneering microenterprise developer, to develop a feasibility study on expanding its services to low-income African-American women either within the Chicago area or to multiple sites nationwide. WSEP also wanted to assess the potential of nonprofit franchising to extend the effectiveness of WSEP's group lending program. The study incorporated an implementation plan for expansion and specific recommendations about staffing, training, and improvements to management systems. Once the plan was implemented, Brody-Weiser-Burns also evaluated the project's earned income options.

Broder-Weiser-Burns will also help deliver technical assistance to participating minority firms to improve their pricing and quality capability and identify employees and the most effective training providers to work with these vendors. For more information, contact: John Weiser Brody-Weiser-Burns 250 West Main Street, Suite 110 Branford, CT 06405 (203) 481–4199 www.brodyweiser.com

Strategy 2—The More Complex Approach to Outsourcing: Direct Delivery

In this approach to outsourcing, centers can also develop their own outsourcing program for local entrepreneurs and jobs for residents.

But many of these strategies will require centers with larger staffs; unique skill sets; and solid links to local employers, institutions, and business organizations.

With that ability, the following steps should be taken to develop a successful outsourcing business.

Step 1: Target the Most Promising Industry Sectors and Local Employers for Outsourcing

Industries with the greatest potential for outsourcing vary city by city. The best place to find out which industries outsource locally is with the local chamber of commerce or minority business organization. The largest single employer in a local metropolitan area may have a large number of entry-level jobs, which is an indicator of potential outsourcing opportunities. Neighborhood Networks centers should investigate whether the employers have work that can be subcontracted at lower cost without sacrificing quality.

An example is InDex, in Tulsa, Oklahoma. Started by the local chamber of commerce, this nonprofit training and employment program for Temporary Assistance for Needy Families (TANF) and low-income individuals has become self-sufficient by establishing outsourcing vendor relationships with employers to produce such products as fishing rods and reels, toggle switches, glossy catalogs, and bulk mailings for a communications firm.

In the absence of an obvious employer that outsources products or services, Neighborhood Networks centers can conduct research to determine the most promising outsourcing opportunities in the area.

 Research largest local markets for outsourcing. The largest national growth for outsourcing of products and services is in the healthcare, information services, facilities management, and back office/clerical support sectors.

A good source of information about outsourcing trends is the *Outsourcing Journal* (www.outsourcing-journal.com). It provides data about national and worldwide activity from the perspective of the customer and the supplier. Healthcare and financial service companies or academic institutions are traditionally the greatest source of local outsourcing contracts in most major cities.

Determine the "hot buttons." Once you
have identified the best markets for
outsourcing, concentrate on the specific
products and services that are in greatest
demand.

Academic institutions or large healthcare systems are a natural focus for developing an outsourcing initiative because of large, external purchasing needs for products and services. Examples include:

• The University of Pennsylvania's (PENN)
"Buy West Philadelphia" initiative seeks to
leverage Penn's considerable buying power
to benefit businesses in West Philadelphia.
During the 12-month period from July 1,
1998 through June 30, 1999. Penn purchased
\$50 million worth of goods and services
from businesses in West Philadelphia, a
more than twofold increase over the
corresponding amount for fiscal year 1997.

For more information, contact: Ira Harkavy, Associate Vice President University of Pennsylvania and Director, Center for Community Partnerships 133 South 26th Street, Suite 519 Philadelphia, PA 19104–3246 (215) 898–5351 www.upenn.edu/ccp

• Johns Hopkins University Health System. During 1999, the Hopkins outsourcing program generated more than \$15 million in contracts with local and minority businesses in Baltimore, Maryland. Construction contracts represent a significant portion of the work.

Step 2: Identify Potential Local Entrepreneurs to Fulfill Outsourcing Contracts

To a great extent, a successful outsourcing initiative depends on the expertise, professionalism, and commitment to excellence demonstrated by the vendor. If the vendor cannot deliver the product to the employer cost-effectively and meet all contract requirements, the employer will find another vendor.

Neighborhood Networks centers must think like employers when choosing local entrepreneurs to participate in outsourcing. Therefore, it is important that center operators make a knowledgeable decision if this business is right for them.

Suggestions for finding local effective vendors include:

Network with local workforce investment boards (WIB). WIBs have replaced private industry councils (PICs) under the Workforce Investment Act. They administer funds for and conduct oversight on the local workforce development system, including One-Stop Career Centers and individual service providers. They can be located through the local government directory. Neighborhood Networks centers can also seek references about vendors from various community-based service providers, social service agencies, business intermediaries, and professional organizations, such as the chamber of commerce, The United Way, and The Urban League. These agencies may be able to provide recommendations on successful entrepreneurs who have the expertise and experience to deliver the specific goods and

services required by the outsourcing employer.

Link with nonprofit minority business **development entities.** These organizations develop business contracts for minority entrepreneurs and companies, and job opportunities for the poorest neighborhoods in cities. To find one in your area, contact the MBDA in Washington, D.C., or one of its regional offices.

For more information, contact: U.S. Department of Commerce Minority Business Development Agency (202) 482-0404 www.mbda.gov

The Empower Baltimore Management Corporation is an example of an MBDA in Baltimore. The agency's mission is to identify minority entrepreneurs and opportunities for business development in Baltimore's empowerment zone. The agency is an intermediary for the city to develop strategic alliances with large institutions, such as UMMS, Bell Atlantic, and Johns Hopkins, to facilitate minority business development.

For more information, contact: Diane Bell, Director Empower Baltimore Management Corp. Three South Frederick Street, Suite 800 Baltimore, MD 21202 (410) 783-4222 www.baltimoreempowermentzone.com

Conduct skills and interest inventory of residents. Neighborhood Networks centers should survey skills and vocational interests of local residents to locate individuals who have the desire, aptitude, and proven track record in operating a microenterprise. Warning: Work only with local entrepreneurs who have demonstrated their ability to deliver a product and have good relationships with their customers.

Asking an outsourcing business to use a new vendor with little experience is not the most effective way to forge a new business relationship and the contract can inevitably run into trouble.

- Identify resources for local vendors. Neighborhood Networks centers may also investigate local funding sources, including financial and in-kind skills training by
 - employers, to raise the capacity and quality of local entrepreneurs and design strategies to lower costs of goods and services provided to the outsourcing employer.
 - UMMS supported a community-based training program that hired and placed 15 community residents in clerical jobs at its facility. The same type of training support should be sought for local entrepreneurs and vendors.
- Organize and facilitate training for local entrepreneurs and minority firms. Building the capacity of small businesses will often enable them to participate more successfully in an outsourcing initiative with a large employer or institution.
 - Check with local business organizations, including the chamber of commerce or Service Corps of Retired Executives (SCORE), to determine if a training or mentoring initiative can be implemented that is specifically focused on local entrepreneurs interested in participating in a local outsourcing program.

For more information, contact: **SCORE** 409 Third Street SW., Sixth Floor Washington, DC 20024 (800) 634-0245 www.score.org

Local universities or community college business departments often offer certificate and non-certificate courses on how to operate a successful small business.

Step 3: Win an Outsourcing Contract

Once the outsourcing employer or institution is identified and a local business intermediary has agreed to participate, several criteria must be met for the initiative to succeed. To help win an outsourcing contract, Neighborhood Networks centers should ensure that the following criteria have been addressed:

- Comprehensive knowledge of the employer. Neighborhood Networks centers, with the help of the intermediary, should thoroughly assess the employer's outsourcing needs. This means researching the employer's previous outsourcing contracts with vendors, including goods and services they need, and the requirements regarding quality, cost, delivery, and reasons for changing vendors or staying with them. If several previous vendors complain about unethical practices or disputes with the employer, shop around for another outsourcing company. If the employer has maintained a long-term relationship with vendors, this is a positive sign and you should approach this company about a potential outsourcing contract.
- Identification of the most promising product/service lines for outsourcing. Centers should only identify the goods or services that can be most effectively provided by local entrepreneurs at competitive prices using entry-level workers. Examples: stationery or printing supplies; building maintenance and security services; food service, such as coffee and pastry delivery for morning or afternoon coffee breaks; and messenger service.
- A senior management member and decisionmaker committed to making the initiative work. Every successful outsourcing initiative working with minority vendors needs a champion, someone who will ensure the active support and participation of top management as well as front-line staff. Neighborhood Networks centers must identify and establish a close relationship with this senior management person and be able to call on him/her to keep the process on track when something unexpected threatens to derail it.

- A local entrepreneur/vendor with a proven performance record. An employer will not sign an outsourcing contract unless it is known that the vendor has the capability, knowledge, and experience to deliver the goods or services needed by the outsourcing employer or institution. Centers should work with intermediaries to identify two to three local vendors with the best performance record in the specific product or service area required by the employer.
- Clear objectives and accountability on the part of the employer and vendor. Centers and intermediaries can assist this process by facilitating meetings and discussions between the outsourcing entity and the vendor to ensure everyone agrees on expectations of the employer and subcontractor. There should be a written contract that spells out the responsibility of all participating parties.
- Quick action. Do not wait for the outsourcing entity to make the first move on a contract. Come to the meeting with specific proposals that are fully developed and ready to sign, and be prepared to start the delivery process. Employers are impressed by enthusiasm and "can do" spirit of potential vendors.

Step 4: Identify Training Providers to Deliver Job-Ready Employees for Vendors

Trained and qualified employees are an essential part of any successful outsourcing initiative. Neighborhood Networks centers can play an essential role in identifying, screening and negotiating with training and placement providers to deliver job-ready workers to firms with outsourcing contracts. Neighborhood Networks centers can also identify and refer to the vendor individual residents with the necessary skills and aptitude.

Suggestions for identifying effective service providers:

 Contact the local Workforce Investment Board (WIB) for a list of service providers.
 WIBs are knowledgeable about individual providers' performance record. Neighborhood Networks centers should check recent outcomes for providers (last 12 months), including people served, number and types of job placements, the percentage of people still employed at 6 months, and the quality of postemployment case management.

- Make onsite visits to providers with the best outcomes and observe their operation. Speak to individual staff responsible for client training and case management to get a sense of their commitment to adequately preparing clients for job opportunities. Talk to clients to gauge their enthusiasm for the training and the positive attitude needed to succeed in the workplace.
- Neighborhood Networks centers should find out about their approach to referral of jobready workers and how they match job candidates with employer requirements. A positive indicator is when job developers conduct site visits to companies to get a sense of the work site culture and talk to employees about the workplace environment to make sure it is a good fit for their clients. Another positive indicator is when there is a commitment by case managers to do regular followup visits with new hires by phone and in person at least every other week for the
- Ask for and check employer references on job candidate referrals. To get an accurate appraisal of referrals from employers, ask for a list of all companies who have hired job candidates in the past 12 months, then call half of them and ask what the retention rate has been for workers hired by the provider. High turnover of workers referred by the provider is a warning sign to look elsewhere.

first 2 months on the job.

• Sign a memorandum of understanding (MOU) with the service provider. A signed MOU encourages a provider to be more diligent in referring job-ready workers to vendors. It spells out the responsibility of the service provider and the specific services it promises to provide to the center in terms of

worker job readiness and effective postemployment support.

Step 5: Monitor the Outsourcing Program to Ensure Vendor and Employer Performance

Consistent and thorough evaluation of any contractual initiative is a requirement for success. Outsourcing employers or institutions will be more willing to participate with local or minority entrepreneurs if there is an ongoing performance evaluation component built into the contract. To ensure positive outcomes for Neighborhood Networks centers should:

- Identify a contact person at the vendor firm. Assign a staff person or volunteer to check with the vendor contact weekly or biweekly for an oral report on the work flow, problems, special situations, etc.
- Identify a contact person at the outsourcing employer. The Neighborhood Networks center should make periodic calls to a contact, such as someone in the purchasing department, to make sure there are no problems from the employer's perspective. If there are problems, the center should facilitate a meeting with the employer, vendor, and the intermediary to pinpoint the cause of the problem. They should agree to resolve the problem to everyone's satisfaction.
- Facilitate quarterly meetings between the vendor and the outsourcing entity.

 Scheduled meetings with the principals of a contract help instill a more harmonious working relationship and give each side the opportunity to discuss ways to improve the process and make it more efficient. It is also better to meet in a positive environment than to meet only when there is a problem.
- Facilitate technical assistance to the vendor, if needed. Neighborhood Networks centers should assist local entrepreneurs or vendors with additional training or technical assistance if their performance indicates improvement is needed to fulfill the contract.

• Design and implement a product/service delivery reporting system. Neighborhood Networks centers can assist vendors in organizing and implementing a reporting and accounting system. Centers should ask vendors to provide them and the business intermediary with copies of its quarterly reports on inventory, product and service delivery, and cash flow. Reporting can be an early warning system for performance problems. It can also be used as positive performance indicators when contract renewal discussions take place.

National What Works Models for Community Outsourcing Initiatives

The following nonprofit organizations are models for developing effective outsourcing initiatives that serve the minority residents in their communities.

These models share several essential components required to develop, implement, and execute an outsourcing initiative that provides value for everyone involved. These components enable organizations to:

- Identify an industry and employer that routinely outsources contracts for products and services.
- Have the capability in-house to deliver those contracts or identify and assist local entrepreneur who can.
- Ensure the skills required to deliver these contracts can be acquired by local residents through available training programs.

Focus HOPE, Detroit: Focus HOPE is a civil rights, social service, and job training/placement organization that serves minority populations in Detroit. It has a three-tiered training program that provides literacy improvement, state-of-the-art machinist training, and college degrees in engineering. Its job placement rate in the automotive industry is nearly 100 percent. To provide its graduates with a real-time automotive workplace experience and generate funding for

training, Focus HOPE negotiated outsourcing contracts with Chrysler Corporation and General Motors for the past several years to produce car and truck parts.

For more information, contact:

Eleanor Josaitis Focus HOPE 1355 Oakman Boulevard Detroit, MI 48238 (313) 494–4400 www.focushope.edu

Industrial Exchange, Inc. (IndEx), Tulsa,

Oklahoma: Established by the Tulsa Metropolitan Chamber of Commerce in 1992, IndEx is a partnership of businesses, government agencies, and charitable organizations that provides training and hands-on job experience. IndEx provides job experience by contracting with local companies to perform light manufacturing work.

Participants are referred to IndEx by the Department of Human Services of Tulsa County. They spend 8 hours daily at the IndEx building—4 hours in educational activities, such as reading improvement and work-readiness skills, and 4 hours working on the shop floor. IndEx also provides participants an opportunity to earn a GED certificate. Participants are not paid a salary, but do continue receiving welfare checks. They also are eligible for childcare and transportation assistance. After completing the program, some participants are hired by IndEx as permanent employees and some are hired by local employers for whom they performed work during training.

Contact:

Wayne Rowley Tulsa Metropolitan Chamber of Commerce 616 South Boston Tulsa, OK 74119–1298 (918) 560–1201 waynerowley@tulsachamber.com

Employment Trust Inc. (ETI), Portland,

Maine: ETI is a for-profit job placement agency that has created a process called "job carving" to develop new entry-level jobs within a company while improving productivity and cost

effectiveness. The process analyzes and restructures job functions and workflow procedures to best match the skill level of inexperienced entry workers. By carving out the entry-level tasks of a position, the process allows the skilled, highly paid workers to devote more time to the higher-end skill requirements of the job. ETI signed a contract with UnumProvident, the world's largest disability insurance provider, to restructure their customer account and outsource the department's entry-level work functions to ETI's Managed Work Services division. ETI provides onsite job coaches who work side by side with the new entry-level employees recruited from local workforce development programs and disadvantaged local residents.

Employment Trust, Inc. 470 Forest Avenue, Suite 301 Portland, ME 04101 (207) 775–1924 ETIMaine@aol.com Washington: PHS is a nonprofit organization serving various at-risk populations, including exoffenders and recovering substance abusers. It operates a wide range of self-supporting, competitive businesses that provide many of its clients with the employment and job training they need to become self-sufficient. PHS's Pioneer Enterprise Group employs more than 700 workers in its manufacturing, distribution, construction,

Pioneer Human Services (PHS), Seattle,

food service, warehousing, hotel, printing, and mailing divisions. It has outsourcing contracts with private companies, including Boeing Aircraft, Starbucks, and other major employers in the northwestern United States.

Pioneer Human Services 7440 West Marginal Way South Seattle, WA 98108–4141 (206) 768–1990 www.pioneerhumanserv.com/Enterprises.html

Neighborhood Networks Information

For more information about Neighborhood Networks, visit the Web site at www.NeighborhoodNetworks.org or contact the Neighborhood Networks Information Center toll-free at (888) 312–2743, or TTY at (800) 483–2209. The Web site contains valuable information for centers including:

Databases

Centers

Information about operating centers and those in planning stages. Neighborhood Networks centers across the United States are listed geographically by state.

News

Articles, press releases, success stories, and grand openings relevant to Neighborhood Networks.

Properties

Information about Neighborhood Networks properties, listed geographically by state.

• Resources

Information about funding, technical assistance, publications, and Web site resources.

Lists

Conferences

Calendar of conferences and training events.

• Consortia

List of Neighborhood Networks consortia.

Coordinators

List of Neighborhood Networks coordinators.

• Resident Associations

List of Neighborhood Networks properties with active resident associations.

• Senior Properties

List of senior properties with operational Neighborhood Networks centers.

Online Networking

Talk with Neighborhood Networks staff and stakeholders via online networking.

Publications

- Fact sheets. Fact sheets are one-page summaries of various topics relevant to the operations of Neighborhood Network centers. Fact sheets currently available include an overview of the initiative, telehealth programs, health information, health partnerships, childcare, transportation, seniors, and community improvements at Neighborhood Network centers.
- Network News (current and past issues). A
 quarterly newsletter that highlights national
 achievements for a wide audience, including
 partners and the public.
- NNewsline (current and past issues). A quarterly newsletter that highlights topics of interest to Neighborhood Networks centers and coordinators.